FARRWOOD GREEN II CONDOMINIUM ASSOCIATION

FINANCIAL STATEMENTS
And
SUPPLEMENTAL INFORMATION

Year Ended March 31, 2012

FARRWOOD GREEN II CONDOMINIUM ASSOCIATION
FINANCIAL STATEMENTS REPORT
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ROSELLI, CLARK & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors
Farrwood Green II Condominium Association

We have reviewed the accompanying balance sheet of Farrwood Green II Condominium Association (the "Association") as of March 31, 2012, and the related statements of revenues and expenses, changes in fund balances and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property on page 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operations, economic, or historical context. The required supplementary information has been compiled from information that is the representation of management. We have not audited or reviewed the required supplementary information and, accordingly, we do not express an opinion or provide any assurance on such required supplementary information.

Roselli Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
June 20, 2012

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FARRWOOD GREEN II CONDOMINIUM ASSOCIATION
BALANCE SHEET
MARCH 31, 2012

	Operating Fund	Replacement Reserve Fund	Total
ASSETS			
Cash and cash equivalents	$ 15,928	$ 154,394	$ 170,322
Investments	-	153,726	153,726
Accounts receivable	13,814	-	13,814
Prepaid expenses	7,624	-	7,624
Loan closing costs - net	1,494	-	1,494
TOTAL ASSETS	$ 38,860	$ 308,120	$ 346,980
LIABILITIES			
Accounts payable	$ 1,307	$ -	$ 1,307
Deferred revenue	4,856	-	4,856
Note payable	197,313	-	197,313
Total liabilities	203,476	-	203,476
COMMITMENTS AND CONTINGENCIES (Note E)			
FUND BALANCES			
Accumulated excess of revenues over expenses	(164,616)	304,251	139,635
Accumulated other comprehensive income:			
Net unrealized gain on investments	-	3,869	3,869
Total Fund Balances	(164,616)	308,120	143,504
TOTAL LIABILITIES AND FUND BALANCES	$ 38,860	$ 308,120	$ 346,980

See accompanying notes and independent accountants' review report.

FARRWOOD GREEN II CONDOMINIUM ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES
YEAR ENDED MARCH 31, 2012

	Operating Fund	Replacement Reserve Fund	Total
REVENUES			
Condominium fee assessments	$ 250,557	$ 24,000	$ 274,557
Late fees, violations and other income	1,339	-	1,339
Investment income	44	5,549	5,593
TOTAL REVENUES	251,940	29,549	281,489
EXPENSES			
Management fees	28,704	-	28,704
Legal and accounting fees	8,015	-	8,015
Administrative and office	1,568	526	2,094
Meeting expenses	1,535	-	1,535
Insurance	29,723	-	29,723
Repairs, maintenance and supplies	50,269	-	50,269
Landscaping and irrigation	40,219	-	40,219
Snow removal	31,089	-	31,089
Pest control	4,295	-	4,295
Electricity	6,238	-	6,238
Water and sewer	4,845	-	4,845
Interest expense	13,844	-	13,844
Income taxes	251	-	251
TOTAL EXPENSES	220,595	526	221,121
EXCESS OF REVENUES OVER EXPENSES	$ 31,345	$ 29,023	$ 60,368

See accompanying notes and independent accountants' review report.

FARRWOOD GREEN II CONDOMINIUM ASSOCIATION
STATEMENT OF CHANGES IN FUND BALANCES
YEAR ENDED MARCH 31, 2012

	Operating Fund	Replacement Reserve Fund	Total
BEGINNING FUND BALANCES	$ (195,961)	$ 275,228	$ 79,267
EXCESS OF REVENUES OVER EXPENSES	31,345	29,023	60,368
NET UNREALIZED GAIN ON INVESTMENTS	-	3,869	3,869
ENDING FUND BALANCES	$ (164,616)	$ 308,120	$ 143,504

See accompanying notes and independent accountants' review report.

FARRWOOD GREEN II CONDOMINIUM ASSOCIATION
STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2012

	Operating Fund	Replacement Reserve Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of revenue over expenses	$ 31,345	$ 29,023	$ 60,368
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Amortization of loan closing costs	274	-	274
(Increase) decrease in:			
Accounts receivable	(2,376)	-	(2,376)
Prepaid expenses	(75)	-	(75)
Increase (decrease) in:			
Accounts payable	(15,027)	-	(15,027)
Deferred revenue	(298)	-	(298)
Net cash provided by operating activities	13,843	29,023	42,866
CASH FLOWS FROM FINANCING ACTIVITIES			
Change in investment holdings	-	(149,857)	(149,857)
Repayments on note payable	(40,814)	-	(40,814)
Net cash used in financing activities	(40,814)	(149,857)	(190,671)
DECREASE IN CASH AND CASH EQUIVALENTS	(26,971)	(120,834)	(147,805)
CASH AND CASH EQUIVALENTS - Beginning of year	42,899	275,228	318,127
CASH AND CASH EQUIVALENTS - End of year	$ 15,928	$ 154,394	$ 170,322
SUPPLEMENTAL DISCLOSURE			
Cash paid for income taxes	$ -	$ -	$ -
Cash paid for interest	$ 13,570	$ -	$ 13,570

See accompanying notes and independent accountants' review report.

FARRWOOD GREEN II CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2012

Note A – Nature of Organization

Farrwood Green II Condominium Association (the "Association") is a condominium association established in the Commonwealth of Massachusetts on April 1, 1982. The Association, which consists of 128 residential units located in Haverhill, Massachusetts, is responsible for the operation and maintenance of the common property of Farrwood Green II Condominiums.

The Association engages a management company to oversee daily operating activities. These services were provided by Property Management of Andover throughout all of fiscal year 2012.

Note B – Summary of Significant Accounting Policies

The Association's financial statements are prepared using the accrual basis of accounting. The Association's fiscal year commenced on April 1, 2011 and concluded on March 31, 2012. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Changes in estimates are recorded in the period which they become known.

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

> *Operating Fund* – This fund is used to account for financial resources available for the general operations of the Association.
>
> *Replacement Reserve Fund* – This fund is used to accumulate financial resources designated for future major repairs and replacements.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with remaining maturities of three months or less. The Association maintains its cash at a single financial institution. Accounts at this institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000. All Association deposits were fully insured at March 31, 2012.

At March 31, 2012, the Association maintained two certificates of deposit with different financial institutions with an aggregate fair value of $44,651. These certificates of deposit are scheduled to mature in April 2014 and December 2016 and bear interest at rates of 1.1% and 2.1% per annum. Each certificate of deposit was fully insured by the FDIC at March 31, 2012. Penalties for early withdrawal, if any, would not have a material adverse effect on the financial statements of the Association. Accordingly, these amounts have been reported as cash equivalents in the Replacement Reserve Fund in these financial statements.

The Association maintained an investment account with a financial institution that contained seven mutual funds at March 31, 2012 with an aggregate fair value of $153,726. The primary objective of these mutual funds is to generate yields in excess of those that the Association could realize with certificates of deposit. None of the investments are covered by the FDIC. At March 31, 2012, the Association had a net unrealized gain on these investments of $3,869, which is reported as a component of the fund balance in the Replacement Reserve Fund.

Accounts Receivable/Unit Owner Assessments

Unit owners are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Accounts receivable consists primarily of unit owner assessments and related charges outstanding at March 31, 2012. The allowance for doubtful accounts is based on the Association's assessment of the collectibility of specific unit owner accounts and an assessment of the economic risk as well as an aging of the accounts receivable. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments become excessively delinquent, as determined by the Board. After significant measures have failed to result in their collection, an allowance for doubtful accounts is established to represent the estimated uncollectible amount. At March 31, 2012, there was no allowance for doubtful accounts. Any excess assessments at year-end are retained by the Association for use in the succeeding year.

Outstanding balances from two unit owners represented approximately 34% of the March 31, 2012 accounts receivable balance in the Operating Fund. There were no other unit owners who individually represented more than 10% of the outstanding accounts receivable balance in the Operating Fund at March 31, 2012.

Prepaid Expenses

Prepaid expenses consisted of the following at March 31, 2012:

Insurance policy premiums	$ 7,476
Federal and state income taxes	148
	$ 7,624

Loan Closing Costs

Loan closing costs of $2,155 are being amortized on a straight-line basis over the term of the note payable (see Note C). Amortization expense for fiscal year 2012 was $274. Accumulated amortization at March 31, 2012 was $661.

Property and Equipment

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common and not by the Association. The Association capitalizes any material, personal property to which it has title at cost, and depreciates it using the straight-line method over its estimated useful life.

Fair Values

The carrying amounts of cash and cash equivalents, accounts receivable, prepaid expenses and accounts payable approximate their fair value due to their relatively short-term maturities.

Deferred Revenue

Unit owner assessments are billed and due on the first day of each month in the month the assessments are earned. Unit owners may pay their assessment in advance of this due date. This prepaid amount as of the balance sheet date is reported as deferred revenue.

Revenue Recognition

Unit owner assessments are budgeted annually and due monthly into the Operating Fund. The Association recognizes revenue from unit owner assessments each month, which is considered the period the assessment is earned regardless of when the assessment is paid.

Unit owner assessments were assessed through the budgeting process at between $169 and $229 per month throughout all of fiscal year 2012. Allocation by unit is based upon percentage of beneficial ownership interest.

The Association has the right, subject to Board approval, to levy special assessments for major operating items, or capital outlays. The Association recognizes revenue in these instances when the special assessment is enacted by the Board. This assessment offsets the liability that will be recorded for the defect.

Comprehensive Income

During the year ended March 31, 2012, comprehensive income and the excess of revenues over expenses were equal.

Income Taxes

The Association applies the guidance set forth by Accounting Standards Codification ("ASC") 740, *Accounting for Income Taxes*, which requires it to recognize deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the period of the rate of change.

The Association is open to examination by federal and state tax authorities for tax years 2009 through 2012.

Condominium associations, if they qualify, may elect to be taxed either as regular corporations or to be treated as a tax-exempt homeowners' association under Internal Revenue Code Section 528. Under that Section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of Association property. Nonexempt function income includes earned interest and any revenues received from nonmembers or activities outside of the Association's exempt purpose. The net nonexempt function income is taxed at 30% by the Federal government and at 5.3% by the Commonwealth of Massachusetts. During the year ended March 31, 2012, the Association qualified to be treated as a tax-exempt homeowners' association for tax purposes and elected such provisions.

Subsequent Events Review

In accordance with ASC 855, *Subsequent Events*, management of the Association evaluated subsequent events through June 20, 2012. There were no subsequent events to disclose.

Note C – Note Payable

On October 20, 2009, the Association executed a $300,000, eight-year note payable with a bank (the "Note Payable"). Interest on the Note Payable is 6.18% per annum. The Association is required to make monthly principal and interest payments of $4,532. This monthly payment includes an amount for additional principal, which will reduce the payment term on the Note Payable. The terms of the Note Payable allow the Association to make additional principal payments in advance of their scheduled due dates without penalty.

The proceeds of the Note Payable were used to finance a roofing project funded by the Association's Operating Fund. The Note Payable is secured by all Association assets and future condominium assessments.

Future minimum payments on the Note Payable are as follows:

Fiscal Year	Principal	Interest	Total
2013	$ 43,406	$ 10,978	$ 54,384
2014	46,165	8,219	54,384
2015	49,101	5,283	54,384
2016	52,223	2,161	54,384
2017	6,418	46	6,464
	$ 197,313	$ 26,687	$ 224,000

In fiscal year 2012, the Association paid $13,570 in interest expense relative to the Note Payable.

Note D – Deficit

The Association continues to operate with a deficit fund balance in its Operating Fund. The deficit fund balance decreased $31,345 in fiscal year 2012 to $164,616. This deficit fund balance was incurred in fiscal year 2011 as a result of a significant roofing project, which was financed with the proceeds of the Note Payable (see Note C). The deficit is expected to decrease at the same rate as the reduction in the Note Payable, which is scheduled to mature in 2017.

Note E – Commitment and Contingencies

Condominium property, by its very nature, is inherently at risk to structural defects resulting from faulty workmanship or wear and tear. These defects are not always immediately apparent, and quite often, replacement reserve fund balances have not been earmarked or are not sufficient to cure the defect. Although the amount of liability resulting from such situations, if any, at March 31, 2012 cannot be determined, the Association believes that any resulting liability, if any, should not materially affect the financial statements as of March 31, 2012. In those situations where replacement reserves are lacking, a special assessment is normally authorized to fund the amounts necessary to cure the defect.

The Association is subject to various other legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of operations. While the outcome of these other potential claims cannot be predicted with certainty, management does not believe that the outcome of any of these other matters will have a material adverse effect on the Association's financial position or results of operations.

Note F – Future Major Repairs and Replacements

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds are held in separate accounts and are generally not available for operating purposes.

The Association engaged an independent engineer who conducted a study in 2008 to estimate the remaining useful lives and the replacement costs of the common property components relative to the replacement reserve fund. A summary schedule of this study has been included in this report entitled Supplemental Information on Future Repairs and Replacements and can be reviewed on page 11. The actual expenditures in this study may vary from estimated amounts, and variations may be material. The Association is funding for such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Accordingly, actual future expenditures may exceed the amounts accumulated and as a result the amounts accumulated may not be adequate to meet future needs.

If additional funds are required, the Association has the right, subject to Board approval, to increase regular assessments, levy special assessments, borrow funds, or it may delay major repairs and replacements until funds are available.

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FARRWOOD GREEN II CONDOMINIUM ASSOCIATION
SUPPLEMENTAL INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS
YEAR ENDED MARCH 31, 2012
(UNAUDITED)

An independent engineer conducted a study in 2008 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

The following information is based on the study and presents significant information about the components of of personal property.

Component Requiring Funding	Estimated Useful Remaining Life (Years)		Estimated Current Replacement Cost*
Site utilities	0	$	1,800
Irrigation system	0		2,200
Pavement	2		488,100
Sidewalk pavement	2		49,740
Concrete patios	12		152,640
Concrete stairs	7		7,000
Concrete block walls	2		61,250
Split rail fencing	2		2,000
Street signs	11		800
Masonry repairs	7		76,950
Wood deck	6 to 10		460,800
Shingle roofs	1 to 26		456,000
Metal roofs	22		369,600
Sealant joints	0 to 6		78,820
Mailbox kiosks	2		11,000
Entrance lights	6		30,720
Soffit lights	6		2,375
Exterior spotlights	6		1,800
		$	2,253,595

* The Estimated Current Cost is based upon component funding as of the date of the reserve study report prepared by the engineer. Components that have been replaced since the issuance of that report are <u>not</u> reduced from the amounts shown above.

See independent accountants' review report.